

EMPLOYEE HANDOUT

REDEPOSIT SERVICE

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WHAT IS REDEPOSIT SERVICE?

As employees, we make contributions (also called **deposits**) to either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS), if we are in a position with retirement coverage. When those contributions are made to either CSRS or FERS, they are moved directly from your pay and invested in a retirement fund automatically. Your agency also makes contributions to the retirement fund for all employees who are making deposits. These funds and interest earned are the source of income for the pay you will receive after retirement. Your retirement pay is called an **annuity**.

If you leave civil service for more than 30 days, you may request and receive a **refund** of the contributions (deposits) you have paid into the CSRS or FERS retirement system. When you receive this refund of your deposits, the period of service (dates of employment) represented by the refunded deposits is now called **redeposit service**.

IF I TAKE MY CONTRIBUTIONS OUT, CAN I PAY THEM BACK IF I RETURN TO WORK?

Maybe, it depends on which retirement system you were in when you received a refund of your contributions and a few other factors. The rules for CSRS and FERS employees who take a refund of contributions are easy:

- A CSRS employee may make a **redeposit** (a payment to the retirement fund) to pay for CSRS, CSRS Interim or CSRS Offset redeposit service.
- A FERS employee, who receives a refund of FERS retirement contributions (or deposits), **may not** make a redeposit (this will include interim and CSRS Offset service).

The rules for FERS employees who have received a refund of prior CSRS contributions are more complicated. Some CSRS redeposit service falls under CSRS rules, other CSRS redeposit service falls under FERS rules. To find the right rule for your CSRS redeposit service, you need to determine whether you will have a **CSRS Component** to your annuity when you retire. A CSRS component is the part of a FERS retirement benefit that is credited and computed using the CSRS rules and the CSRS **annuity formula**. The annuity formula determines how much each year of service will be worth in your annuity (i.e., a percentage of your high-3 average salary). CSRS and FERS have different annuity formulas.

You **will** have a CSRS component if you **elected** to transfer to FERS **and** you had at least **5 years** of creditable civilian service under CSRS or under FICA (Social Security coverage only) before electing FERS. When counting your service to see if you have 5 years of CSRS and FICA service, do not count any **CSRS Interim or CSRS Offset service**. During this service,

you paid into CSRS and FICA at the same time and now that you are FERS, the service falls under FERS rules.

- If you have a CSRS component, you **may** make a redeposit for CSRS redeposit service. It does not matter whether the CSRS refund was received before or after your transfer to FERS. Since the CSRS redeposit service will be used in your CSRS component, you use the CSRS rules to determine the affect of the redeposit service.
- If you have a CSRS component, you may make a redeposit for CSRS Interim or CSRS Offset redeposit service, **only** if you applied for the refund of the contributions (deposits) **before** you transferred to FERS. Now that you are FERS, the CSRS Interim and CSRS Offset service will fall under FERS redeposit rules (not the CSRS rules).

You **will not** have a CSRS component if you were **automatically** placed in FERS, **or** if you **elected** to transfer to FERS **but** you had less than **5 years** of creditable civilian service under CSRS or under FICA (Social Security coverage only) before electing FERS. Again, when counting your service, to see if you have 5 years of CSRS and FICA service, do not count any CSRS Interim or CSRS Offset service. During this service, you paid into CSRS and FICA and now that you are FERS, the service falls under FERS rules.

- If you do not have a CSRS component, you may make a redeposit for CSRS, CSRS Interim, or CSRS Offset redeposit service, **only** if you applied for the refund of the deposits **before** you transferred to or became covered under FERS. Since you will not have a CSRS component, the FERS redeposit rules apply to all your redeposit service.
- If you do not have a CSRS component, you **may not** make a redeposit for CSRS, CSRS Interim, or CSRS Offset redeposit service, if you applied for the refund of the deposits **after** you transferred to FERS.

CAN REDEPOSIT SERVICE AFFECT MY RETIREMENT BENEFITS?

Yes. If you do not pay a redeposit to cover the period of redeposit service, it will affect your retirement. An **unpaid redeposit** may affect when you are eligible to retire and how much money you receive in **annuity payments**. An annuity payment is your monthly retirement benefit (check). Annuity payments start when you retire and are paid for the rest of your life. A reduction to your annuity payment amount is a life long reduction.

Remember that if you pay a redeposit, you will receive full retirement credit for the period of deposit service.

Retirement credit can be broken down into two categories:

Eligibility: CSRS and FERS have different retirement eligibility requirements. Although there are many factors that affect whether you are eligible to retire, one factor is your length of service.

- If you receive credit for eligibility for a period of service, the service counts towards meeting the length of service requirement for retirement (i.e., 30 years of service for voluntary retirement).

- If you do not receive credit for eligibility for a period of service, the service will not count towards meeting the requirement for retirement. (So, you may have to work longer to be eligible to retire).

Computations: CSRS and FERS have different annuity formulas which are used to calculate (or compute) the amount of your annuity payment. One factor in these formulas is your length of service for computations. (**Note:** Your length of service for computations may be less than your length of service for eligibility).

- If you receive credit for computations for a period of service, the service will be added to all other periods of creditable service to determine your total length of service. This total will then be used to compute the amount of your annuity payment.
- If you do not receive credit for computations for a period of service, the service will not be used when calculating the amount of your annuity payment. (So, you will get less money).

The rules, which determine the affect of an unpaid deposit, are different depending upon whether the service would be creditable under CSRS or FERS.

WHAT IS THE AFFECT OF AN UNPAID DEPOSIT UNDER CSRS?

(See the CSRS Redeposit Service chart at the end of this handout.)

If the unpaid redeposit is for CSRS redeposit service performed before 10-1-1990 - and - retirement benefits are not based on Disability Retirement or Death-in-Service:

- Eligibility: you receive length of service credit for the period of redeposit service
- Computations: you receive length of service credit for the period of redeposit service
- Reduction: your annuity payment is permanently reduced. The reduction to your monthly annuity payment is based on your age at retirement and the amount of redeposit owed. This is called an **actuarial reduction**.

To compute the amount of the monthly actuarial reduction: divide the amount of the redeposit due (including interest) by the actuarial factor (see Actuarial Reduction chart). Round your answer up to the next dollar and you have the amount of the monthly reduction in the annuity.

$$\frac{\text{Redeposit Owed}}{\text{Actuarial Factor}} = \text{Monthly Reduction}$$

Example: Bob retires after 30 years of total service. He is 56 years old. His total service includes 4 years of redeposit service performed before 10-1-1990. The redeposit for this 4-year period is \$17,500 (this is the amount of his refund, plus interest). Bob is considering paying the redeposit. His high-3 average salary is \$30,000.

- If Bob pays the \$17,500 redeposit, his annuity payment would be \$16,875 each year. (With 30 years of service, he receives 56.25% of his \$30,000 high-3 average salary).
- If Bob does not pay the \$17,500 deposit, his annuity payment would be reduced by \$86 each month (\$1,032 total each year) (computations below). This is a permanent reduction. Bob's annuity payment would be \$15,843 each year.

Redeposit Owed $\$17,500 = \$85.78 \text{ or } \$86$ **Monthly Reduction**
Actuarial Factor 204.0 (based on age 56)

If the unpaid redeposit is for CSRS redeposit service performed on or after 10-1-1990 - or - retirement benefits are based on Disability Retirement or Death-in-Service:

- Eligibility: you receive length of service credit for the period of redeposit service
- Computations: you do not receive length of service credit for the period of redeposit service

Example of post 10-1-1990 unpaid redeposit:

Susan retires after 30 years of total service. Her total service includes 4 years of redeposit service performed after 10-1-1990. The redeposit for this 4-year period is \$12,500 (amount of her refund, plus interest). Susan is considering paying the redeposit. Her high-3 average salary is \$30,000.

- If Susan pays the \$12,500 redeposit, her annuity payment would be \$16,875 each year. (With 30 years of service, she receives 56.25% of her \$30,000 high-3 average salary).
- If Susan does not pay the \$12,500 redeposit, she will not receive credit in her annuity computations for the 4 years of redeposit service. Her annuity computations would be based on 26 years of service instead of 30. Her annuity payment for 26 years of service would be \$14,475 each year. (With 26 years of service, she receives 48.25% of her \$30,000 high-3 average salary).

WHAT IS THE AFFECT OF AN UNPAID REDEPOSIT UNDER FERS?

(See the FERS Redeposit Service at the end of this guide.)

The basic FERS redeposit rule is simple. **No Redeposit. No Credit.** If you do not pay the redeposit, you will not receive **any** credit towards retirement for the redeposit service (eligibility or computations).

Other points about FERS redeposits:

- An employee may **never** make a redeposit for refunded FERS contributions or deposits. The refunded FERS service does not count towards retirement (eligibility or computations).
- An employee may **never** make a redeposit for CSRS Interim and CSRS Offset redeposit service if the employee applied for the refund of contributions after being covered under FERS.
- If you have a CSRS component, CSRS redeposit service is not paid under FERS rules, it is paid under CSRS rules. If you don't have a CSRS component, a FERS redeposit is allowed for the CSRS service **only** if you applied for the CSRS refund before being covered by FERS.
- You can contact your servicing personnel office for more information on your redeposit. They can help you with the special rules that apply to determine if your service before becoming FERS will follow the FERS redeposit rules or if the service will follow the CSRS redeposit rules.

WHAT IS THE COST OF THE REDEPOSIT?

The amount of the redeposit equals the amount of the refund received, **plus** accrued interest beginning the date the refund was paid.

WHY DO I HAVE TO PAY INTEREST AND HOW MUCH WILL IT BE?

When your retirement contributions are made to either CSRS or FERS, they are moved directly from your pay and invested in a retirement fund automatically. Your agency also makes contributions to the retirement fund for all employees who are making deposits. These funds and interest earned are the source of income for the benefits (**annuity**) you will receive after retirement.

If you have redeposit service, your contributions have been removed from the retirement fund. So, the money has not been earning interest over the years (since you took the refund) to fund retirement benefits for that period of service. If your redeposit did not include interest charges, it would not be enough to help pay for your retirement benefits.

Redeposit service is subject to interest based on when the refund was received. If the application was received before October 1, 1982, interest on the redeposit accrues daily beginning on the date the refund was paid and is charged at rates below. (compounded annually).

If the application was received after September 30, 1982, interest is charged on the redeposit, beginning on the date the refund was paid (compounded annually).

- ? **4%** interest for periods of deposit service before 1-1-1948
- ? **3%** interest for periods of deposit service from 1-1-1948 to 12-31-1984
- ? **Variable interest rates** apply for deposit service after 12-31-1984 (rates listed below)

VARIABLE INTEREST RATES

These rates are determined at the end of each year by the Secretary of the Treasury. The rates are based on the amount of interest the Government earned on investments that year.

<u>Year</u>	<u>Interest Rate</u>	<u>Year</u>	<u>Interest Rate</u>
1985	13.000%	1994	6.250%
1986	11.125%	1995	7.000%
1987	9.000%	1996	6.875%
1988	8.375%	1997	6.875%
1989	9.125%	1998	6.750%
1990	8.750%	1999	5.750%
1991	8.625%	2000	5.875%
1992	8.125%	2001	6.375%
1993	7.125%	2002	5.500%
		2003	5.000%

Note: If you have redeposit service, which was performed **before 10-1-1982**, the variable interest rates are not charged. The 3% rate would continue to apply.

HOW IS THE ACTUARIAL REDUCTION FOR UNPAID CSRS REDEPOSITS COMPUTED?

If you have an unpaid CSRS redeposit for service performed before 10-1-1990 (when retirement benefits are not based on Disability Retirement or Death-in-Service) the **actuarial reduction factors** are assigned based on the your age at the time of retirement. They are used in this formula to determine the amount of the monthly reduction to your annuity:

$$\frac{\text{Redeposit Owed}}{\text{Actuarial Factor}} = \text{Monthly Reduction}$$

ACTUARIAL REDUCTION FACTORS			
AGE AT RETIREMENT	REDUCTION FACTOR	AGE AT RETIREMENT	REDUCTION FACTOR
40	271.2	66	156.8
41	267.1	67	152.0
42	263.3	68	147.1
43	259.9	69	142.3
44	256.5	70	137.1
45	252.5	71	131.9
46	248.4	72	126.7
47	244.4	73	121.5
48	240.2	74	116.2
49	235.8	75	111.0
50	230.9	76	105.9
51	226.7	77	100.8
52	222.6	78	95.8
53	218.2	79	90.9
54	213.5	80	86.2
55	208.5	81	81.6
56	204.0	82	77.1
57	199.4	83	72.8
58	194.7	84	68.7
59	190.2	85	64.7
60	186.1	86	61.0
61	181.2	87	57.4
62	176.0	88	54.1
63	171.3	89	50.9
64	166.4	90	47.9
65	161.5		

WHO MAY MAKE A REDEPOSIT?

Redeposits can be made by a current employee covered by CSRS (including CSRS Offset) or FERS, a separated employee eligible for an immediate annuity, a former employee eligible for a deferred annuity, the spouse or former spouse of a deceased employee entitled to survivor annuity benefits.

HOW DO I MAKE A REDEPOSIT?

- Ask your servicing personnel office for an **estimate** of the redeposit amount owed.
- If you intend to make a redeposit, complete one of the following **forms** (depending on whether you are a CSRS or FERS employee).
- **CSRS - SF 2803**, Application to Make Deposit or Redeposit, or
- **FERS - SF 3108**, Application to Make Service Credit Payments for Civilian Service
- Complete the front of the form and submit it to your personnel office. **Note:** if you plan to retire within 6 months, submit the form with your retirement application.
- Your personnel office completes the remainder of the form. They will also complete an "Agency Checklist" (RI 36-56 for CSRS or RI 95-1 for FERS). Both forms will be mailed to the Office of Personnel Management, Retirement Operations Center, Boyers, PA 16017.
- OPM computes the amount of your redeposit (including interest) and mails you an official bill.
- You can pay the redeposit in full or in installments of at least \$50.00. You cannot pay the redeposit through payroll deductions, but you can arrange for electronic funds transfer (EFT) payments from your bank account to OPM.
- Each time you make a redeposit payment, OPM will send you a receipt showing the new redeposit balance. Keep these receipts for your records, because your redeposit payments **will not** be reflected in the retirement contribution block of your Leave and Earnings Statements.
- Redeposits may be paid before or after retirement, but before the final adjudication of your retirement claim. If the redeposit is not paid in full before your retirement claim is finalized, for refunds on or after October 1, 1990, OPM will send you a refund of the incomplete redeposit. For refunds before October 1, 1990, OPM will use the remaining amount in the redeposit in the formula to determine the reduction.

